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NEWS RELEASE

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JOIN REGIONAL TRANSMISSION ORGANIZATIONS, COMMISSION TELLS UTILITIES IN LANDMARK MOVE TO SPUR COMPETITION, CUT PRICES

The Federal Energy Regulatory Commission today called on all transmission owners to join regional transmission organizations (RTOs) in a landmark move to boost competition and bring consumers the lowest possible prices for electricity.

In its most significant action on electric industry restructuring since 1996, when its Order No. 888 ordered public utility transmission owners to provide transmission access and comparable service to competitors, the Commission said in its Final Rule denominated Order No. 2000, that it expects transmission owners to join RTOs on a voluntary basis. However, the Commission clarified that adoption of a voluntary approach to RTO formation does not preclude the exercise of any of its Federal Power Act authorities to remedy undue discrimination or the exercise of market power, including the remedy of requiring RTO participation where supported in the record.

RTOs will benefit consumers through lower electricity rates resulting from a wider choice of services and service providers, the Commission states. In addition, substantial cost savings of approximately \$2.4 billion a year are likely to result from the formation of these umbrella organizations, which will put all public utility transmission facilities in a region under common control.

"Order No. 2000 is a critical step toward broad market reforms in bulk power markets," stated Chairman James J. Hoecker. "It is about operating the Nation's greatest

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energy network—high voltage transmission—on a regional basis, with few economic or operational impediments to trade, a high level of transparency and ease of entry and exit. While RTO formation is voluntary under the Final Rule, the Commission musters all its tools to set a direction for the industry—clear guidance of what RTOs must be and do, effective pricing innovations, a timetable for action, collaborative process, and a persuasive case for separating control of grid operations from the influence of electricity market participants. The RTO rule encompasses many provocative debates, but the only goals that hold long-term significance are competition, efficiency, and reliability."

Promising flexibility to accommodate regional needs and a collaborative process, the Commission said it would schedule two-day regional workshops in Philadelphia, Pennsylvania, Atlanta, Georgia, Cincinnati, Ohio, Kansas City, Missouri, and Las Vegas, Nevada, in February, March and April of next year and expects all transmission owners to attend at least one workshop. Dates and details will be announced at a later date. Under this collaborative process, the Commission expects public and non-public utilities, in coordination with state officials, Commission staff, and all affected interest groups, to actively work toward the voluntary development of RTOs.

Today's final rule follows the issuance of a Notice of Proposed Rulemaking (NOPR) in May of this year. Regional conferences followed and allowed for extensive discussions and collaboration with the industry, states and others with an interest in the Commission's proposals.

The rule requires all public utilities that own, operate or control interstate transmission to file by October 15, 2000, a proposal for an RTO, or, alternatively, a description of any efforts made by the utility to participate in an RTO, the reasons for not participating and any obstacles to participation, and any plans for further work toward participation. The RTOs will be operational by December 15, 2001. Public utilities that are members of an existing, FERC-approved regional entity must file by January 15, 2001.

The Commission adopts a flexible approach that permits a number of different types of RTOs to come into being—including non-profit independent system operators and for-profit transmission companies (transcos), combinations of the two, or other

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approaches as yet to be determined. The Commission also adopts the principle of open architecture so that an RTO and its members can improve structure, geographic scope, market support and operations to meet market needs. The RTO must be able to evolve over time, and the Commission will allow RTOs to propose changes to their enabling agreements to meet changing market, organization and policy needs. But all RTOs must embrace four core characteristics and eight key functions.

The Commission provides guidance on flexible transmission ratemaking that may be proposed by RTOs, including ratemaking treatments that address congestion pricing and performance-based regulation. It also proposes to consider, on a case-by-case basis, transmission ratemaking reforms. In addition, it offers RTOs opportunities for other regulatory benefits, such as deference in dispute resolution and streamlined filing and approval procedures.

It notes that RTOs, regardless of format, will alleviate stress on the bulk power system caused by changes in the structure of the industry, improve efficiencies in transmission grid management through better pricing and congestion management, improve grid reliability, remove remaining opportunities for discriminatory transmission practices, improve market performance, increase coordination among state regulatory agencies, cut transaction costs, facilitate the success of state retail access programs, and facilitate lighter-handed regulation.

Characteristics and Functions

The four characteristics required of an RTO are: Independence; Scope and Regional Configuration; Operational Authority; and Short-term Reliability.

The eight required functions are: Tariff Administration and Design; Congestion Management; Parallel Path Flows; Ancillary Services; OASIS; Market Monitoring; Planning and Expansion; and Interregional Coordination.

Characteristics

Independence. RTOs must be independent of market participants. By market participant, the Commission means any entity that, either directly or through an affiliate, sells or brokers electric energy, or provides transmission or ancillary services to the RTO unless the Commission finds that the entity does not have economic or commercial interests that would affect the RTO. While the Commission will permit market participants to retain some ownership percentages in RTOs during a five-year transition,

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all ownership interests that involve voting control must be terminated with limited

exceptions within five years.

Scope and Regional Configuration. RTOs must serve a region of sufficient scope and configuration to permit the RTO to maintain reliability, effectively perform its required functions and support efficient and non-discriminatory power markets.

Operational Authority. The RTO is required to be the security coordinator for its region. The Commission will allow flexibility in how the RTO performs its security coordinator functions, and it will not at this time require the RTO to operate what traditionally has been thought of as a single control area for its region. However, it must perform the control functions required to satisfy the minimum characteristics and functions in a non-discriminatory manner. Those designing the RTO will have flexibility to decide how to exercise operational control authority. The RTO will have to prepare a public report on operational arrangements within two years.

Short-term Reliability. The RTO must have exclusive authority for maintaining short-term reliability of the grid it operates. It must have exclusive authority for receiving, confirming and implementing all interchange schedules. It must have the right to order the redispatch of any generator connected to the transmission facilities it operates, if necessary for the reliable operation of those facilities. When the RTO operates transmission facilities owned by other entities, it must have authority to approve all requests for scheduled outages.

Functions

Tariff Administration and Design. The RTO must be the sole provider of transmission service and sole administrator of its own open access tariff. It must have sole authority over facilities under its control to evaluate and approve or deny all requests for transmission service, and also authority to approve requests for new interconnections. The Commission wants to eliminate rate pancaking—paying additional transmission charges every time a trade crosses a corporate boundary.

Congestion Management. The RTO must ensure the development and operation of market mechanisms to manage congestion. The Commission will require that responsibility for operating these market mechanisms reside either with the RTO or with another entity that is not affiliated with any market participant. The market mechanisms must provide all transmission customers with efficient price signals. The RTO will have

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one year after commencement of initial operations to implement the market mechanism.

But at the time of initial operation it must have an effective protocol for managing congestion.

Parallel Path Flows. The RTO should implement procedures to address parallel path flow issues within its region and with other regions on the date of initial operation. It will have three years to implement measures to address parallel path flows between regions.

Ancillary Services. The RTO must serve as the provider of last resort of all ancillary services required by Order No. 888 and subsequent orders. The services must be included in the RTO administered tariff so that transmission customers will have access to one-stop shopping for transmission service. All market participants must have the option of self-supplying or acquiring ancillary services from third parties. The RTO must have the authority to decide the minimum required amounts of each ancillary service, and it must ensure that its transmission customers have access to a real-time balancing market that is developed and operated by either the RTO or another entity not affiliated with a market participant.

OASIS. The RTO must be the single OASIS site administrator for all transmission facilities under its control. It will allow an RTO the flexibility to contract out OASIS responsibilities to another independent entity if justified. The RTO must independently calculate total transmission capability (TTC) and available transmission capability (ATC).

Market Monitoring. The RTO must provide for objective monitoring of the markets it operates to identify design flaws, market power abuses, and opportunities for efficiency improvements, and propose appropriate actions. Reports on these issues must be filed with the Commission and affected regulatory authorities. The Commission believes the information collected will reflect data that the RTO will collect or have access to in the normal course of business. As bulk power markets evolve, the Commission may revisit the need for the type of monitoring the rule requires.

Planning and Expansion. The RTO must be responsible for planning and directing necessary transmission expansions and upgrades that will enable it to provide efficient, reliable and non-discriminatory service and coordinate such efforts with the appropriate state authorities. As part of this function, an RTO must: encourage market-

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motivated operating and investment actions for preventing and relieving congestion;

accommodate efforts by state regulatory commissions to create multi-state agreements to review and approve new transmission facilities; and, if unable to satisfy the planning and expansion function when it starts operation, file a plan with the Commission with specified milestones that will ensure it meets planning and expansion requirements within three years.

Interregional Coordination. RTOs will be required to develop mechanisms to coordinate their activities with other regions. RTOs must ensure the integration of reliability and market interface practices among regions.

Transmission Pricing Reforms

The Commission provides guidance on a variety of new transmission pricing reforms for RTOs. These include single system rates, congestion pricing, and a variety of other innovative ratemaking reforms.

The Commission will consider authorizing innovative rate reforms for approved RTOs, including performance-based regulation, as well as returns on equity of nontraditional methods of determining non-traditional depreciation schedules for new transmission investment and incremental pricing for new transmission investments. Some of these pricing reforms will be available only through January 1, 2005.

Collaborative Process

The Commission believes that the collaborative process must accommodate different regions of the country in different stages of RTO formation. It follows a flexible approach to allow for these differences. The Commission announced five workshops around the country to begin collaborative discussions of RTO formation. Other meetings may be convened to help solve issues that arise and Commission staff will be available to act as settlement judges, mediators, facilitators or observers. Collaborative processes are expected to identify RTO regions, develop a list of all transmission owners and facilities in each region, to begin the development of an RTO proposal for application for Commission approval.